

STOP, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6-9
SUPPLEMENTARY INFORMATION	
Statement of Functional Expenses	11
Statement of Expenditures of Federal Awards	12
AUDIT REPORTS, INCLUDING LETTERS ON INTERNAL CONTROL	
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	14-15
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	16-18
Statement of Findings and Questioned Costs	19-21

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
STOP, Inc.
Norfolk, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of **STOP, Inc.** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016 and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **STOP, Inc.** as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Norfolk Office
749 Boush Street
Norfolk, VA 23510
757.627.7672

Virginia Beach Office
100 Constitution Drive
Suite 200
Virginia Beach, VA 23462
757.631.4760

Newport News Office
11837 Rock Landing Drive
Suite 202
Newport News, VA 23606
757.596.3046

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statement of functional expenses on page 11 and statement of expenditures of Federal Awards on page 12, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)* is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2017, our consideration of *STOP, Inc.'s* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering *STOP, Inc.'s* internal control over financial reporting and compliance.

Jones CPA, Group, P.C.

Norfolk, Virginia
March 24, 2017

STOP, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 150,668
Accounts Receivable:	
Grants and Contracts	397,544
Other	4,408
Inventory	116,602
TOTAL CURRENT ASSETS	669,222
PROPERTY AND EQUIPMENT	
At Cost, Net of Accumulated Depreciation	608,259
TOTAL ASSETS	\$ 1,277,481
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable	\$ 173,780
Line of Credit	101,230
Accrued Expenses	145,643
Current Portion Long-Term Debt	11,939
Deferred Revenue	21,393
TOTAL CURRENT LIABILITIES	453,985
LONG-TERM DEBT	
Long-Term - Net of Current Portion	772,269
TOTAL LIABILITIES	1,226,254
NET ASSETS	
Unrestricted	51,227
TOTAL NET ASSETS	51,227
TOTAL LIABILITIES AND NET ASSETS	\$ 1,277,481

See independent auditors' report and accompanying notes.

STOP, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Federal Grants	\$ 3,061,425	\$ -	\$ -	\$ 3,061,425
Other Grants and Contributions	989,545	-	-	989,545
Program Revenue	68,730	-	-	68,730
In-Kind Contributions	81,521	-	-	81,521
Other Income	-	-	-	-
TOTAL REVENUE AND SUPPORT	<u>4,201,221</u>	<u>-</u>	<u>-</u>	<u>4,201,221</u>
EXPENSES				
Program Services	3,315,502	-	-	3,315,502
Support Services	402,044	-	-	402,044
TOTAL EXPENSES	<u>3,717,546</u>	<u>-</u>	<u>-</u>	<u>3,717,546</u>
CHANGE IN NET ASSETS	483,675	-	-	483,675
NET DEFICIT, BEGINNING OF YEAR	(182,584)	-	-	(182,584)
PRIOR PERIOD ADJUSTMENT	<u>(249,864)</u>	<u>-</u>	<u>-</u>	<u>(249,864)</u>
NET ASSETS, END OF YEAR	<u>\$ 51,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,227</u>

See independent auditors' report and accompanying notes.

STOP, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	\$ 483,675
Increase in Net Assets	93,834
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	46,986
(Increase) Decrease in Grants and Contracts Receivable	(4,408)
(Increase) Decrease in Other Accounts Receivable	(39,830)
(Increase) Decrease in Inventory	(98,860)
Increase (Decrease) in Accounts Payable	(91,783)
Increase (Decrease) in Deferred Revenue	90,534
Increase (Decrease) in Accrued Expenses	<u>90,534</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>480,148</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Fixed Assets	(424,510)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(424,510)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal Payments on Debt	<u>(237,675)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(237,675)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(182,037)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>332,705</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 150,668</u>

SUPPLEMENTAL DISCLOSURE

INTEREST PAID	<u>\$ 17,460</u>
----------------------	-------------------------

See independent auditors' report and accompanying notes.

STOP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - STOP, Inc. is a not-for-profit corporation organized in 1965 to carry out community action programs which are generally funded by revenue from agency programs and grants from local, state, and federal agencies. Such grants usually require compliance with prescribed grant conditions and other special requirements, including the furnishing of certain amounts of cash or noncash contributions.

Income Tax Status - STOP, Inc. is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) under the Internal Revenue Code. The federal income tax returns of the Organization for June 30, 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they are filed.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In accordance with this method of accounting, revenue is recognized in the period it is earned and expenses are recognized in the period in which they are incurred.

Financial Statement Presentation - The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The classes of net assets are described as follows:

Unrestricted net assets are those currently available at the discretion of the Organization for the use in operations.

Temporary restricted net assets are those that are stipulated by donors/grants for specific purposes or are inherently time restricted, such as pledges. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions are reported as unrestricted support if the restrictions are met in the same reporting period.

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation. The Organization has no temporarily or unrestricted net assets as of June 30, 2016.

Cash and Cash Equivalents - For the purposes of the statement of cash flows, the Organization considers all cash on hand and highly liquid investments, with an original maturity of three months or less, to be cash and cash equivalents.

See independent auditors' report.

STOP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Donated Goods and Services - The Organization received donated goods and volunteer services for use in the general operation in the activities of the Organization. At June 30, 2016, \$81,521, has been reflected in the Statement of Activities and Net Assets for donated services. Contributed property and equipment is recorded at fair value at the date of donation.

Property and Equipment - Property and equipment are stated at cost, or if contributed, at the estimated fair value at the date of contribution net of accumulated depreciation. Contributions are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Organization follows the practice of capitalizing expenditures for property and equipment in excess of \$5,000. Depreciation expense for the fiscal year ended June 30, 2016 was \$93,834. Depreciation is calculated using the straight- line method based on the following useful lives:

<u>Asset Category</u>	<u>Useful Life (Years)</u>
Land	N/A
Equipment and Vehicles	5 - 10
Furniture and Fixtures	7 - 15

Inventory - Inventory is valued at the lower of cost or market.

Estimates - The preparation of the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Restricted and Unrestricted Revenue - STOP, Inc. recognizes support from its cost reimbursement grants as costs are incurred. All revenue is considered to be available for unrestricted use unless specifically restricted by the contractor or donor. Amounts received that are designed for future periods or restricted for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had no permanently restricted net assets at June 30, 2016. If temporary restrictions expire within the same year that the restriction was initiated, the Organization reports the income as unrestricted income.

See independent auditors' report.

STOP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses - The costs of providing the various programs and activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses which can be directly associated with a function are charged directly.

Date of Management Review - Management has evaluated subsequent events through March 24, 2017, the date which the financial statements were available to be issued.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2016 the amount of the Organization's uninsured cash balances were \$0.

NOTE 3 - EMPLOYEE BENEFITS

Paid Time Off - Full and part-time employees are entitled to paid time off per the employee manual. The employee receives paid time off depending on the number of years you have been with the Organization. The Organization is in compliance with the FMLA requirements.

A terminated employee is entitled to be paid for accrued paid time off based on the FMLA regulations.

Insurance - Employees may elect to participate in the health insurance program. The Organization pays 100% of the premiums for full-time employees. Full-time employees who opt out of the health insurance coverage are eligible for a salary adjustment in the amount approved by the Executive Committee.

Retirement - The Organization established an employee Defined Contribution Plan under the 403(b) of the Internal Revenue Code and is currently inactive . All employees of the Organization become eligible to participate in the pension plan on the date they fulfill three years of employment. For the year ended June 30, 2016.

NOTE 4 - PROPERTY AND EQUIPMENT

The classes of depreciable assets consisted of the following:

Building & Land	\$ 36,300
Furniture & Equipment	610,572
Vehicles	1,098,230
	<u>1,745,102</u>
Less Accumulated Depreciation	(1,136,843)
Net Property and Equipment	<u>\$ 608,259</u>

See independent auditors' report.

STOP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 - GRANTS AND CONTRACTS RECEIVABLE

The Organization is involved in programs with governmental agencies which result in being secured by the Federal Grants. Uncollectible accounts from these contracts are rare. The allowance method is used to write off receivable and is based on experience and third -party contracts and other circumstances which may affect the ability to collect. Receivables are considered impaired if payments are not received in accordance with the contractual terms and balances are written off when management determines the balance will not be collected. At June 30, 2016 there was no allowance for doubtful accounts.

NOTE 6 - NON-CASH CONTRIBUTIONS

During the year ended June 30, 2016 the Organization received various non-cash contributions. No amounts have been recognized in the accompanying statement of activities unless the criteria for recognition under SFAS No. 116 has been satisfied. Management has estimated the fair value of non-cash contributions as follows:

Services	\$ 71,371
Space - Project Discovery	7,000
Transportation	3,150
	<u>\$ 81,521</u>

NOTE 7 - LONG-TERM DEBT

Long-term debt and related current maturities at June 30, 2016 consists of the following:

HHS Vehicle	\$ 49,250
HHS Program	734,958
	784,208
Less Current Portion	(11,939)
Non-Current Portion	\$ 772,269

Aggregate maturities required on total long term debt for the next five years are as follows:

2017	\$ 11,939
2018	11,969
2019	11,998
2020	12,029
Afterwards	736,273
	\$ 784,208

NOTE 8 - LINE OF CREDIT

At June 30, 2016, the Organization had a line of credit in the amount of \$500,000 with an outstanding balance in the amount of \$101,230. The line is secured by property, inventory and accounts receivable and bears an interest rate based on the Wall Street Journal of 4.75%.

NOTE 9 - PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2016 the Organization recorded a \$106,464 prior period adjustment due to the agreement to close out the Head Start Program. Land was adjusted by \$143,400 to bring value to the original cost There was no effect on income during the current period. Net Assets were reduced by a total of \$249,864.

See independent auditors' report.

SUPPLEMENTARY INFORMATION

STOP, INC.
SUPPLEMENTARY INFORMATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Support Services	Total Expenditures
Salaries and Wages	\$ 1,411,124	\$ 169,048	\$ 1,580,172
Fringe Benefits	352,065	10,108	362,173
Contractual Services	272,646	52,982	325,628
Travel	23,466	-	23,466
Rent	271,805	2,931	274,736
Telephone	33,130	4,332	37,462
Insurance	72,245	4,684	76,929
Cost of Materials	110,117	500	110,617
Vehicle Maintenance and Repairs	89,049	16,849	105,898
Equipment Rental	35,154	55,231	90,385
Client Assistance	254,230	17,097	271,327
Other Expenses	120,665	49,407	170,072
Interest Expense	17,460	-	17,460
Depreciation Expense	93,834	-	93,834
In-Kind Expense	81,521	-	81,521
Non Consumable Supplies	10,669	17,440	28,109
Repairs	1,348	658	2,006
Utilities	64,974	777	65,751
Total Expenses	\$ 3,315,502	\$ 402,044	\$ 3,717,546

See independent auditors' report.

STOP, INC.
SUPPLEMENTARY INFORMATION
STATEMENT OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grant/Program Title	Federal CFDA Number	Expenditures
<u>MAJOR PROGRAMS:</u>		
Passed Through the Virginia Department of Social Services:		
* Community Services Block Grant	93.569	\$ 1,285,843
Temporary Assistance for Needy Families (TANF)	93.558	259,800
* Community Services Block Grant (Carryover)	93.569	113,206
Passed Through the Virginia Department of Housing & Community Development:		
Low Income Home Energy Assistance Program (LIHEAP)	93.568	665,963
Weatherization Assistance for Low-Income Persons	81.042	187,219
Supportive Services for Veterans Families	64.033	419,748
<u>OTHER FEDERAL ASSISTANCE:</u>		
Passed Through the Virginia Housing Development Authority:		
HUD Housing Counseling Assistance Program	14.169	24,557
REACH Housing Counseling Assistance Program	14.169	35,000
Passed Through the City of Norfolk:		
Community Services Block Grant	14.218	70,089
TOTAL FEDERAL ASSISTANCE		<u>\$ 3,061,425</u>

NOTE 1 - BASIS OF PRESENTATION

The statement of expenditures of federal awards includes the federal grant activity of STOP, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this statement is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CRF) Part 2, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the statement presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the statement are reported on the accrual basis of accounting. Expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations of the Uniform Guidance, wherein certain expenditures are not allowable or are limited.

See independent auditors' report.

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROLS AND COMPLIANCE**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
STOP, Inc.
Norfolk, Virginia

Norfolk Office
749 Boush Street
Norfolk, VA 23510
757.627.7672

Virginia Beach Office
100 Constitution Drive
Suite 200
Virginia Beach, VA 23462
757.631.4760

Newport News Office
11837 Rock Landing Drive
Suite 202
Newport News, VA 23606
757.596.3046

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of STOP, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the STOP, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of STOP, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of STOP, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying statement of findings and questioned costs that we consider to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether STOP, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Significant Finding 2016-01 Financial Reporting

There were six instances where the required invoice or voucher could not be verified during testing.

There were instances where the payment voucher or adjustment required additional approval and was only approved by the person who filled out the voucher.

Significant Finding 2016 -02 Financial Reporting

Internal Control documents require two signatures on all checks over \$8,000.

Response:

The STOP Inc. Board will review the \$8,000.00 threshold and determine if it should be changed to reflect significantly increased expenditure levels that have taken place since the original threshold was established many years ago. Regardless, checks will not be split to enable employees to sign them rather than the authorized board member check signer. This process will be voted on in our April 2017 meeting and entered into the STOP Inc. Accounting and Financial Policy Manual.

Findings and Questioned Costs - Major Federal Award Programs Audit

Significant Finding 2016-03 TANF - Eligibility

Eligibility forms selected for audit had instances where the eligibility calculation had not been filed with the TANF payments and upon request, physical copies were not easily located or provided for review.

Response:

The STOP Inc. Board understands that under the current process, staff members are not required to attach intake eligibility forms to finance source documentation process a vendor/client payment. The eligibility test has always been processed in the specific program department by the case worker and verified by the Vice President or the Administrator of the Department. Completed forms were then submitted to Management Support and Special Projects for demographic submission to the State. We now understand that the intake form must also be reviewed in the Finance department for payment eligibility as well as for source documentation verification for each payment processed. This revised process will be reviewed and ensured implementation, in our April 2017 meeting and added to the STOP Inc. Accounting and Financial Policy Manual.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones OPA Group, P.C.

Norfolk, Virginia
March 24, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
STOP, Inc.
Norfolk, Virginia

Norfolk Office
749 Boush Street
Norfolk, VA 23510
757.627.7672

Report on Compliance for Each Major Federal Program

We have audited STOP, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of STOP, Inc.'s major federal programs for the year ended June 30, 2016. STOP, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Virginia Beach Office
100 Constitution Drive
Suite 200
Virginia Beach, VA 23462
757.631.4760

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Newport News Office
11837 Rock Landing Drive
Suite 202
Newport News, VA 23606
757.596.3046

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of STOP, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about STOP, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of STOP, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, STOP, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our audit procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs are items

Significant Finding 2016-01 Financial Reporting

There were instances where the payment voucher or adjustment required additional approval and was only approved by the person who filled out the voucher.

Significant Finding 2016 -02 Financial Reporting

Procedures for check writing in excess of \$8,000 are routinely circumvented. During the approval process for expenditures one employee is allowed to authorize expenditures on behalf of another employee causing a lack of segregation of duties.

Response:

The STOP Inc. Board will review the \$8,000.00 threshold and determine if it should be changed to reflect significantly increased expenditure levels that have taken place since the original threshold was established many years ago. Regardless, checks will not be split to enable employees to sign them rather than the authorized board member check signer. This process will be voted on in our April 2017 meeting and entered into the STOP Inc. Accounting and Financial Policy Manual.

Significant Finding 2016-03 TANF - Eligibility

Eligibility forms selected for audit had instances where the eligibility calculation had not been filed with the TANF payments and upon request, physical copies were not easily located or provided for review.

Response:

The STOP Inc. Board understands that under the current process, staff members are not required to attach intake eligibility forms to finance source documentation process a vendor/client payment. The eligibility test has always been processed in the specific program department by the case worker and verified by the Vice President or the Administrator of the Department. Completed forms were then submitted to Management Support and Special Projects for demographic submission to the State. We now understand that the intake form must also be reviewed in the Finance department for payment eligibility as well as for source documentation verification for each payment processed. This revised process will be reviewed and ensured implementation, in our April 2017 meeting and added to the STOP Inc. Accounting and Financial Policy Manual.

Report on Internal Control Over Compliance

Management of STOP, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered STOP, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of STOP, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying statement of findings and questions costs that we considered to be a significant deficiency.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jones CPA Group, P.C.

Norfolk, Virginia
March 24, 2017

STOP, INC.
STATEMENT OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

1 Summary of Auditors' Results

- A. The auditors' report expresses an unmodified opinion on the financial statements of STOP, Inc.
- B. There were two instances of a significant deficiency in internal control over financial reporting disclosed by the audit of the financial statements. There are no material weaknesses reported.
- C. There are no instances of noncompliance material to the financial statements of STOP, Inc. which would be required to be reported in accordance with *Government Auditing Standards*, disclosed in the audit.
- D. There was one significant deficiency in internal control over major federal award programs disclosed by the audit. No material weaknesses are reported.
- E. The auditors' report on compliance for the major federal award programs for STOP, Inc. expresses an unmodified opinion on all major federal programs.
- F. The audit disclosed no compliance findings required to be reported.
- G. The major programs tested:

<u>CFDA Number(s)</u>	<u>Name of Program or Cluster</u>
93.569	Community Services Block Grant
- H. Dollar threshold used to distinguish between Type A and B programs was \$750,000.
- I. STOP, Inc. was determined to be a low-risk auditee.

2 Findings - Financial Statement Audit

Significant Finding 2016-01 Financial Reporting

Criteria:

An Organization's internal controls over supporting documentation is a process designed to provide reasonable assurance regarding the legitimacy of an expense.

Condition:

There were six instances where the required invoice or voucher could not be verified during testing.

There were instances where the payment voucher or adjustment required additional approval and was only approved by the person who filled out the voucher.

Effect:

The Organization could not establish the legitimacy of expenditures.

Cause:

The Organization did not attach supporting documentation and payment request with the check.

See independent auditors' report.

STOP, INC.
STATEMENT OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Recommendation:

We recommend the Organization file a copy of the supporting documentation and payment request with the check.

Significant Finding 2016 -02 Financial Reporting

Criteria:

Internal Control documents require two signatures on all checks over \$8,000.

Condition:

Procedures for check writing in excess of \$8,000 are routinely circumvented. During the approval process for expenditures one employee is allowed to authorize expenditures on behalf of another employee causing a lack of segregation of duties.

Effect:

Potential effects of this deficiency is the increased risk of fraudulent activity. Employees could cut checks for large sums of money for vendors or other parties without having to receive approval. This reduces the accountability to a particular employee.

Cause:

The internal controls that have been set up are being circumvented.

Recommendation:

We recommend all employees follow the internal controls that have been set up by the Organization.

Response:

The STOP Inc. Board will review the \$8,000.00 threshold and determine if it should be changed to reflect significantly increased expenditure levels that have taken place since the original threshold was established many years ago. Regardless, checks will not be split to enable employees to sign them rather than the authorized board member check signer. This process will be voted on in our April 2017 meeting and entered into the STOP Inc. Accounting and Financial Policy Manual.

Findings and Questioned Costs - Major Federal Award Programs Audit

Significant Finding 2016-03 TANF - Eligibility

Criteria:

The TANF Program requires that each participant's eligibility be determined in order to receive assistance.

Condition:

Eligibility forms selected for audit had instances where the eligibility calculation had not been filed with the TANF payments and upon request, physical copies were not easily located or provided for review.

Effect:

Participants could be inaccurately determined to be eligible for assistance, in which case the Organization could potentially request reimbursement for ineligible participants.

See independent auditors' report.

Recommendation:

We recommend that an internal control procedure be implemented to ensure that eligibility calculations be attached to the payments.

Response:

The STOP Inc. Board understands that under the current process, staff members are not required to attach intake eligibility forms to finance source documentation process a vendor/client payment. The eligibility test has always been processed in the specific program department by the case worker and verified by the Vice President or the Administrator of the Department. Completed forms were then submitted to Management Support and Special Projects for demographic submission to the State. We now understand that the intake form must also be reviewed in the Finance department for payment eligibility as well as for source documentation verification for each payment processed. This revised process will be reviewed and ensured implementation, in our April 2017 meeting and added to the STOP Inc. Accounting and Financial Policy Manual.

Results of Prior Year Findings

There were no prior year findings.